

ARBITRATION PROCEEDINGS - Day 6 - January 30, 2011
ARISPE, ET AL vs. MORGAN, KEEGAN & COMPANY

BEFORE FINRA DISPUTE RESOLUTION

In the Matter of the Arbitration Between:

RICHARD R. ARISPE, JIMMY A.)
BURKE, PEGGY E. BURKE, TODD)
B. BURKE, JOSE J. COLLADO,)
ADELA CHRISTINE COLLADO,)
CHARLES K. COLVIN, C & C)
ERECTION, INC., NANCY GORDON,)
SUSAN W. HACKNEY, DON H.)
JONES, SUZANN S. JONES,)
WILLIAM A. RHODES, JR., DAWN)
SCHUESSLER, KENNETH W. SEARS,)
KENNETH W. SEARS, JR., REINE)
M. SEARS, DANIEL J. SEARS,)
KENNETH W. SEARS, III, JUDY)
STRICKLAND, ELIZABETH STEIN &)
SHANA L. STEIN,)
Claimants)

v.) FINRA CASE NO. 09-006655

MORGAN KEEGAN & COMPANY,)
Respondent.

ARBITRATION PROCEEDINGS

January 30, 2011

Day 6

ARBITRATION PROCEEDINGS was taken in the above-styled and numbered cause on the 30th day of January, 2011, from 9:01 a.m. to 4:55 p.m., before Kelly Hanna, Certified Shorthand Reporter in and for the State of Texas, reported by computerized stenotype machine at the offices of Greenberg Traurig, 1000 Louisiana, Suite 1700, Houston, Texas, pursuant to the Federal Rules of Civil Procedure and the provisions stated on the record or attached hereto.

HANNA & HANNA, INC.
(713) 840-8484



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<p align="right">Page 1530</p> <p>1 A. Well, a modern portfolio theory is based on the 2 importance of asset allocation and diversification, 3 that, in fact, you cannot -- you cannot really 4 outperform a -- a broadly diversified portfolio based on 5 risk and reward. So, it's -- it's -- it's the standard 6 that we're using in the industry. But I think more 7 importantly, I think it was Mr. Kelsoe's experience in 8 the past where you could have corporate bonds, for 9 example, in certain recessions falling a lot more than, 10 perhaps, other types of securities and he wanted to be 11 able to manage that kind of risk by -- through 12 diversification. 13 Q. Such as in the early 2000s with Enron and 14 WorldCom, et cetera? 15 A. That's correct. 16 Q. We'll talk about that in a bit. 17 Let's move on to your next slide about 18 disclosure to holdings. What does this indicate? 19 A. If you wanted to know as an investor what these 20 funds held over time, you would not go to the 21 prospectus. You would go to the semi-annual and the 22 annual reports. And the next couple of pages I have an 23 example of what that would have told you. Page 26 is 24 just how the annual report is disclosed. If you go to 25 Page 27, I have, just as a backdrop, the March 31st,</p>	<p align="right">Page 1532</p> <p>1 The full name of that particular security is in there. 2 It's AERCO Limited 2AA3, 5.2 percent and then a final 3 maturity of 2025. That is the full name of that 4 security. If you wanted to know what that security was, 5 you would go to Bloomberg, for example, and just plug it 6 in and it will pull up, not only the description of that 7 security, but if it was part of a -- an asset-backed or 8 a tranch security, it would also give you all the 9 other securities in that -- in that structure. 10 Q. Okay. So, when you pull it up, it would show 11 you that tranche and then all the other tranches within 12 that particular CDO, for example? 13 A. Yes, sir. 14 Q. So, you could see where it stood in the 15 structure, right? 16 A. Yes. 17 Q. Okay. Let's go ahead to the next slide. Why 18 have you included the auditor's opinion here? 19 A. Well, just to show you that over time these 20 annual reports were audited and that each and every time 21 the -- the auditor's report gave the funds a clean bill 22 of health. 23 Q. Well, it's been suggested that those clean 24 bills of health have been withdrawn. Have they? 25 A. No, I don't think they have.</p>
<p align="right">Page 1531</p> <p>1 2006 annual report for the -- I said RMK Funds. Oh, the 2 RMH. So, the RMK High Income Fund. What I've done is 3 I -- on the left-hand side, I've broken out the various 4 asset types, the way it was listed in these annual 5 reports and you can see how they divided all of the 6 securities in -- in these asset types. So, you would 7 have found asset-backed securities divided by investment 8 grade, noninvestment grade; corporate bonds by 9 investment grade and noninvestment grade; 10 mortgage-backed securities by investment grade and 11 noninvestment grade; and then you have agencies and 12 munis and common stocks, preferred stocks, corporate 13 loans and deposits. 14 Q. So, these reports listed out all of the 15 holdings of that fund at that time, correct? 16 A. That's correct. 17 Q. Now, could you, sir, looking at this listing, 18 was it possible to determine whether any of these were 19 tranch securities? 20 A. Yes. 21 Q. How would you do that? 22 A. Well, there are a couple of different ways. 23 When you look at the annual reports, and you can see 24 they're here in the backdrop, for example, the equipment 25 leases, you can just take one of the securities there.</p>	<p align="right">Page 1533</p> <p>1 Q. Well, have you seen anything in your review of 2 any of the filings indicating that the auditor's clean 3 opinions were withdrawn? 4 A. No, I have not. 5 Q. Let's go on to the next slide, please, sir. 6 It's a multi-colored bar graph. 7 A. Yes. 8 Q. What's -- what are you trying to demonstrate 9 for the Panel here, sir? 10 A. Well, just to show you what the asset 11 allocation was for the different funds over time. So, 12 it's -- it's colorful and it's not always easy to see 13 the specific colors, but, for example, on Page 29, I 14 have gone to the semi-annual and the annual reports for 15 the RMK High Income Fund and I have tracked the various 16 asset allocations over time. You can see, starting in 17 September 2003, the blue part of the bar up on top, it 18 says 24.55 percent. If you follow that one across, that 19 is actually representing corporate -- the percentage of 20 corporate bonds in the portfolio over time, and it 21 varies from 24 down to 11 and then it goes back up 22 towards 40 percent towards the end. 23 Q. And how do these changes take effect? How do 24 they occur? 25 A. This is just showing you that Mr. Kelsoe, as</p>

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1 STATE OF TEXAS

2 COUNTY OF HARRIS

3
4 REPORTER'S CERTIFICATE

5 ARBITRATION HEARING

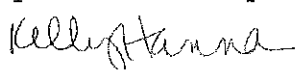
6 January 30, 2011

7
8 I, the undersigned Certified Shorthand Reporter in
9 and for the State of Texas, certify that the facts
10 stated in the foregoing pages are true and correct.

11 I further certify that I am neither attorney or
12 counsel for, related to, nor employed by any parties to
13 the action in which this testimony is taken and,
14 further, that I am not a relative or employee of any
15 counsel employed by the parties hereto or financially
16 interested in the action.

17 SUBSCRIBED AND SWORN TO under my hand and seal of
18 office on this the 7th day of February, 2011

Digitally signed by Kelly Hanna
Date: 2011.02.07 11:43:18 -
08:00
Reason: I am the author of this
document
Location: Houston, TX

19 
20 Kelly Hanna, CSR, RPR, CRR, CMRS

21 Texas CSR 1654

22 Expiration: 12/31/2011

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